

January 16, 2003

Honorable Don Nickles  
Chairman  
Committee on the Budget  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman:

As requested by your staff, CBO has prepared an estimate of the costs of implementing S. 23 (Public Law 108-1), which was cleared by the Congress on January 8, 2003, and signed by the President the same day. This law extends for five months the program of emergency unemployment compensation established by P.L. 107-147. The new law provides up to 26 weeks of additional benefits to those unemployed individuals who exhaust their regular state benefits. Under the law, up to 13 weeks of additional benefits will be available in all states, with another 13 weeks available only in states with high unemployment (as originally defined in P.L. 107-147). The new law will allow beneficiaries who begin to collect emergency benefits by May 31 to continue to collect them through August 30.

CBO has estimated the impact of this legislation on two different bases: (1) using the technical and economic assumptions underlying CBO's March 2002 baseline (which are currently used for Congressional scorekeeping); and (2) using updated technical and economic assumptions that reflect the most recent information about the economy and the unemployment compensation program.

Using the assumptions underlying CBO's March 2002 baseline, we estimate that P.L. 108-1 would increase outlays by \$7.3 billion in fiscal year 2003, and have a net budgetary impact of \$6.6 billion over the 2003-2007 period. Over the 2003-2012 period, the net budgetary impact would fall to \$2.5 billion. The 10-year costs are less than the outlay effect in 2003 because future transfers to the state unemployment accounts from the federal unemployment trust fund would be reduced by the additional spending on benefits. As a result, CBO

assumes that the states would levy higher unemployment insurance taxes than they would have under prior law (i.e., with higher federal-to-state transfers). Those taxes are recorded as revenues on the federal budget. In addition, transfers in 2009 and 2010 that CBO had assumed that states would use to boost benefits now would not occur, and outlays in those years would therefore be lower.

The estimated costs of P.L. 108-1 are somewhat different when estimated using more current economic and technical assumptions. Using updated assumptions, CBO estimates that outlays stemming from the new law in fiscal year 2003 will rise to \$7.6 billion, that the five-year net total will be \$6.8 billion, and that the net budgetary impact for the 2003-2013 period will be \$6.3 billion. Outlays in 2003 will be higher than under the March 2002 baseline assumptions largely because CBO's current estimates for unemployment compensation reflect a higher average benefit received by unemployed individuals. Also, as a result of a less favorable outlook for balances in the federal unemployment trust fund, no future transfers to the state accounts are expected in the next several years, even without the enactment of P.L. 108-1. Consequently, we now expect this legislation to have a much smaller effect on state unemployment taxes over the 2003-2013 period than under the March 2002 assumptions.

The estimated budgetary impact of P.L. 108-1 is shown in the following table under both sets of assumptions.

By Fiscal Year, in Millions of Dollars											
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>CHANGES IN DIRECT SPENDING AND REVENUES</b>											
Using March 2002 Economic and Technical Assumptions											
Estimated Budget Authority	7,250	0	0	0	0	0	-495	-505	0	0	n.a.
Estimated Outlays	7,250	0	0	0	0	0	-495	-505	0	0	n.a.
Estimated Revenues	0	140	200	200	160	135	165	520	1,040	1,215	n.a.
Using Updated Economic and Technical Assumptions											
Estimated Budget Authority	7,565	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	7,565	0	0	0	0	0	0	0	0	0	0
Estimated Revenues	0	155	220	215	175	145	130	50	55	55	60

NOTE: n.a. = not applicable.

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If you wish additional details on this estimate, we will be pleased to provide them. The CBO staff contact is Christina Hawley Sadoti.

Sincerely,

A handwritten signature in dark ink, appearing to read "Barry B. Anderson", with a long, sweeping horizontal line extending to the right.

Barry B. Anderson  
Acting Director

cc: Honorable Kent Conrad  
Ranking Member  
Senate Committee on the Budget

Honorable Charles E. Grassley  
Chairman  
Senate Committee on Finance

Honorable Max Baucus  
Ranking Member  
Senate Committee on Finance

Identical letter sent to the Honorable Jim Nussle.